

STATE OF COLORADO FINANCIAL RESERVES

Proposal to the Joint Budget Committee

February 6, 2020



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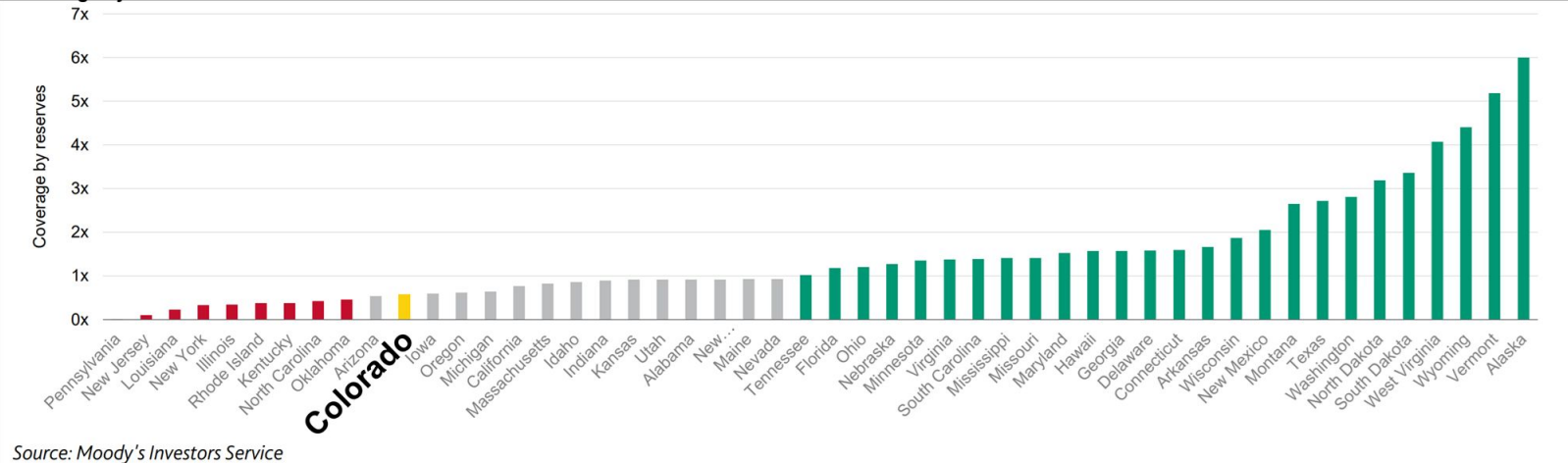
Importance of Reserves in State Finance

Saving for a Rainy Day



26 states could cover a full year of revenue declines solely with reserves on hand

Coverage by reserves of revenue decline in recession scenario



Warning: Colorado has fallen below national average for rainy day funds

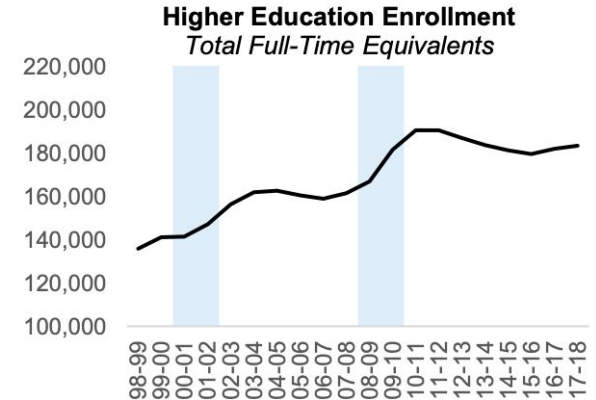
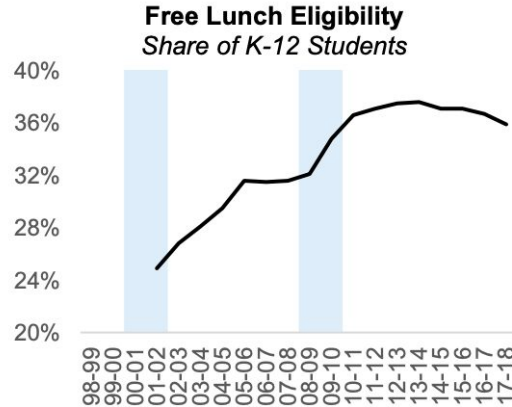
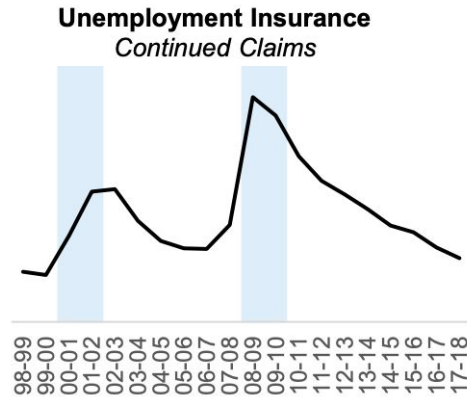
Revenue declines: Recessions hit multiple budget years



General Fund Revenue Compared to Pre-Recession Levels (\$ millions)

	Pre-Recession GF Revenue	Year 1	Year 2	Year 3	Year 4	Cumulative Shortfall (\$)	Cumulative Shortfall (%)
2001	6,521 (FY01)	(984)	(1,082)	(795)	(400)	(3,261)	-50%
2008	7,743 (FY08)	(1,003)	(1,301)	(678)	(27)	(3,009)	-39%

Cost increases: Recessions drive increased caseload and enrollment over multiple budget years



Note: Light blue bars indicate a period of economic recession.

Source: LCS Memo, "Fiscal Strategies for Budget Shortfalls" March 2019
https://leg.colorado.gov/sites/default/files/r19-241_int_eredsted_persons_memo_on_state_fiscal_emergencies.pdf

Reserves Package in FY 2020-21 Budget



1. Increase General Fund reserves to national average (\$31.4 million)
2. Pay back paydate shift (\$75 million)
3. Increase State Education Fund balance (additional \$12 million to reach \$152 million)
4. Propose statutory tools for responding to and recovering from a downturn

\$118M
<1% GF

Increase General Fund Reserves



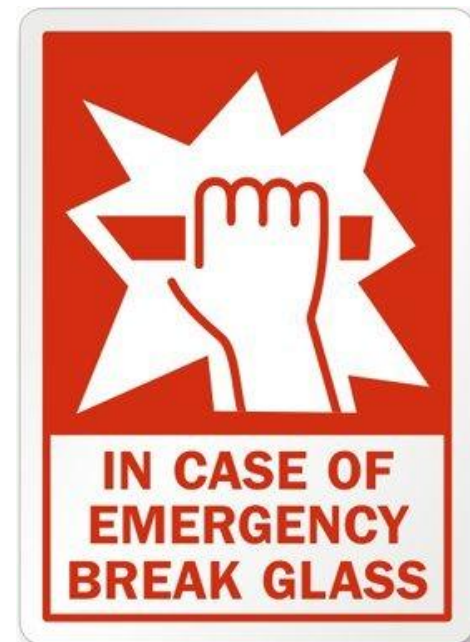
1. Increase General Fund reserves to national average (\$31.4 million)
 - from 7.25% to 7.5% of expenditures
 - National average now 7.6% (+\$12.5 million)
 - Base-building (vs one-time)

Pay back payday shift



2. Pay back payday shift (\$75 million)

- Accounting deferrals as one-time tools
- SB 03-197 - \$89.4 million to defer state employee pay across fiscal years
- Without these one-time tools available, the State is less prepared to manage the next recession
- One-time funds, scaleable



Increase State Education Fund Balance



3. Increase State Education Fund balance (additional \$12 million to reach \$152 million)

- Requires +\$12 million in one-time funds
- Buffer against forecast swings
- Increases needed as Total Program grows over time

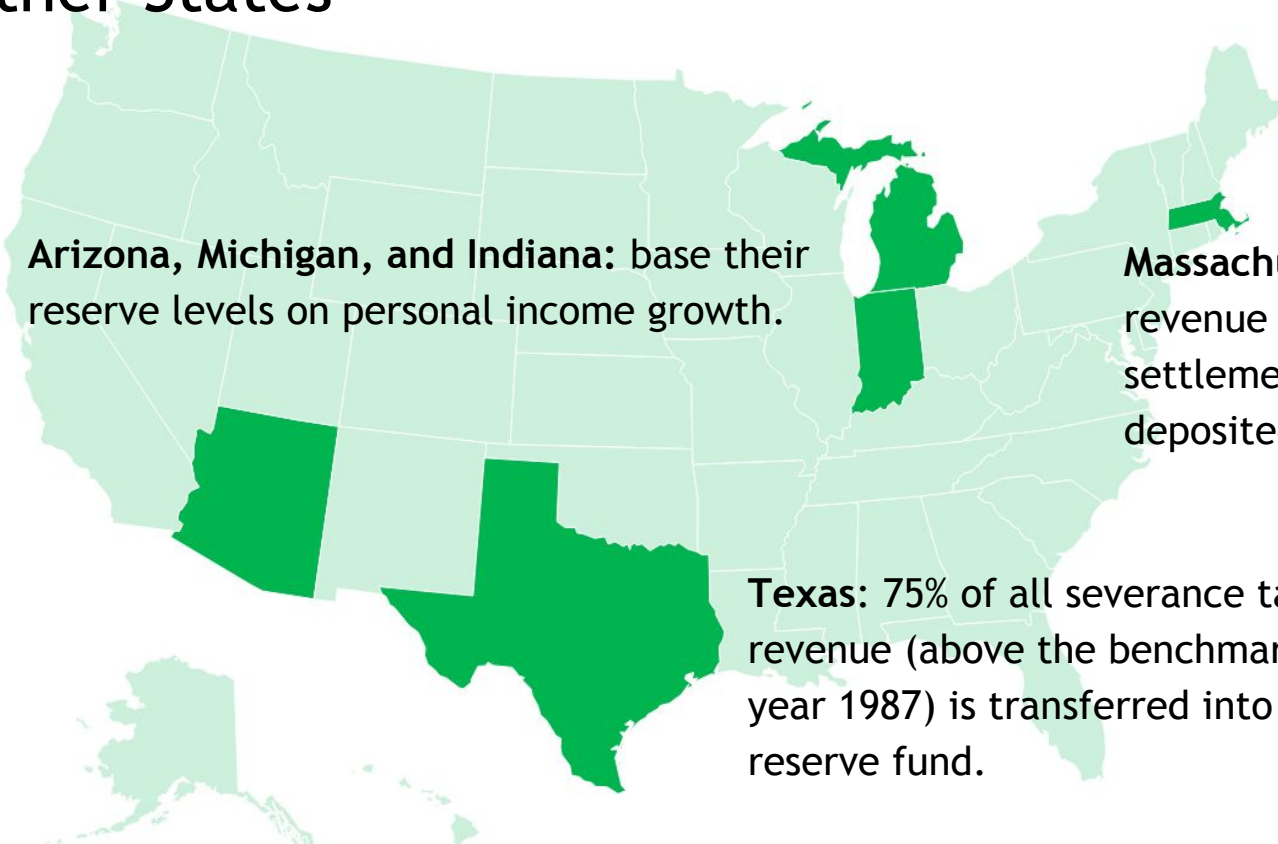
Propose statutory tools



4. A legislative package for responding to and recovering from a downturn

- Withdrawal Rules - ensure spend down over 3 years
- Replenishment Rules - glide path back up after a recession
- Deposit Rules - auto savings as a default
- Fund Size Rules - based on Colorado's revenue volatility and economy

Rainy Day Funds: Deposit and Withdrawal Rules in Other States



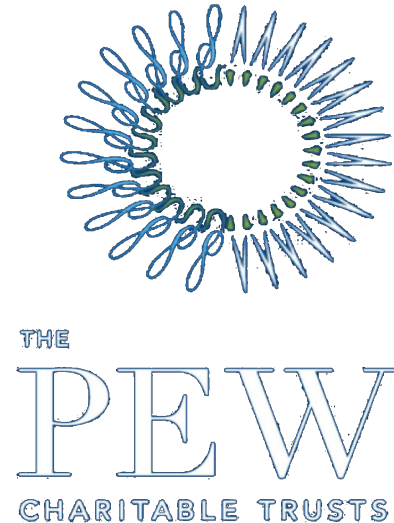
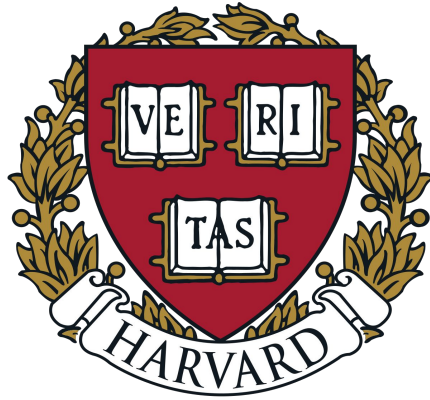
Arizona, Michigan, and Indiana: base their reserve levels on personal income growth.

Massachusetts: capital gains revenue and all one-time legal settlements >\$10 million are deposited into the reserve fund.

Texas: 75% of all severance tax revenue (above the benchmark year 1987) is transferred into the reserve fund.



On-going study to determine the appropriate funds in reserves, based on Colorado's economy

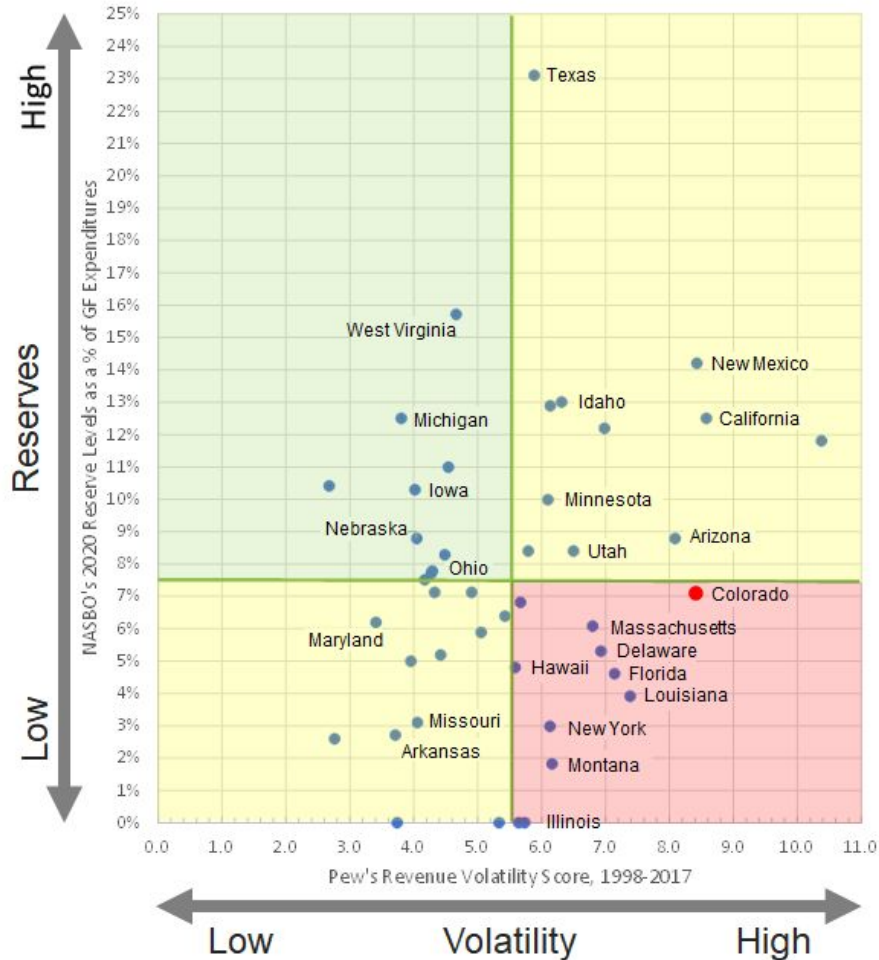


Preliminary estimates expected Summer 2020



Colorado at Risk:

Low Reserves with High Revenue Volatility

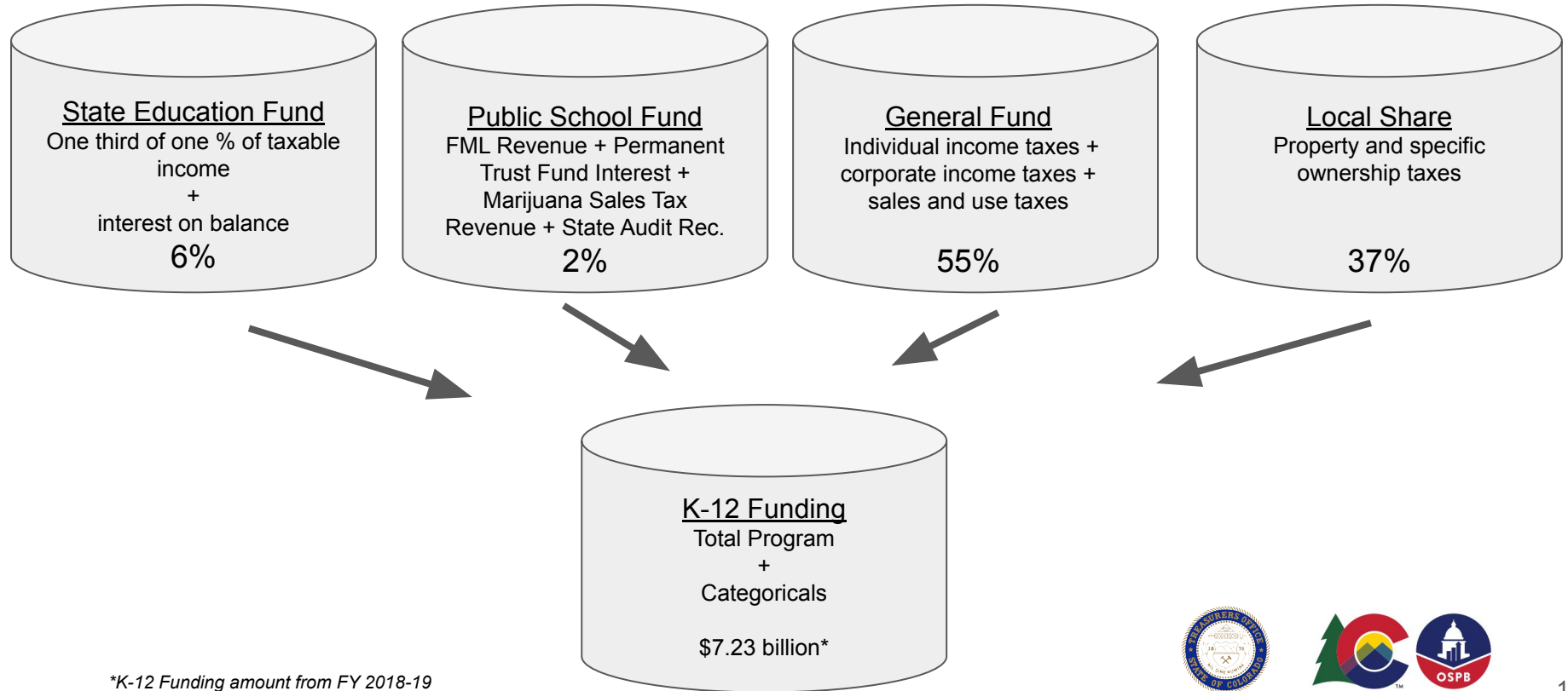


Colorado compared to other states:

- High volatility
- Low reserves

State Education Fund

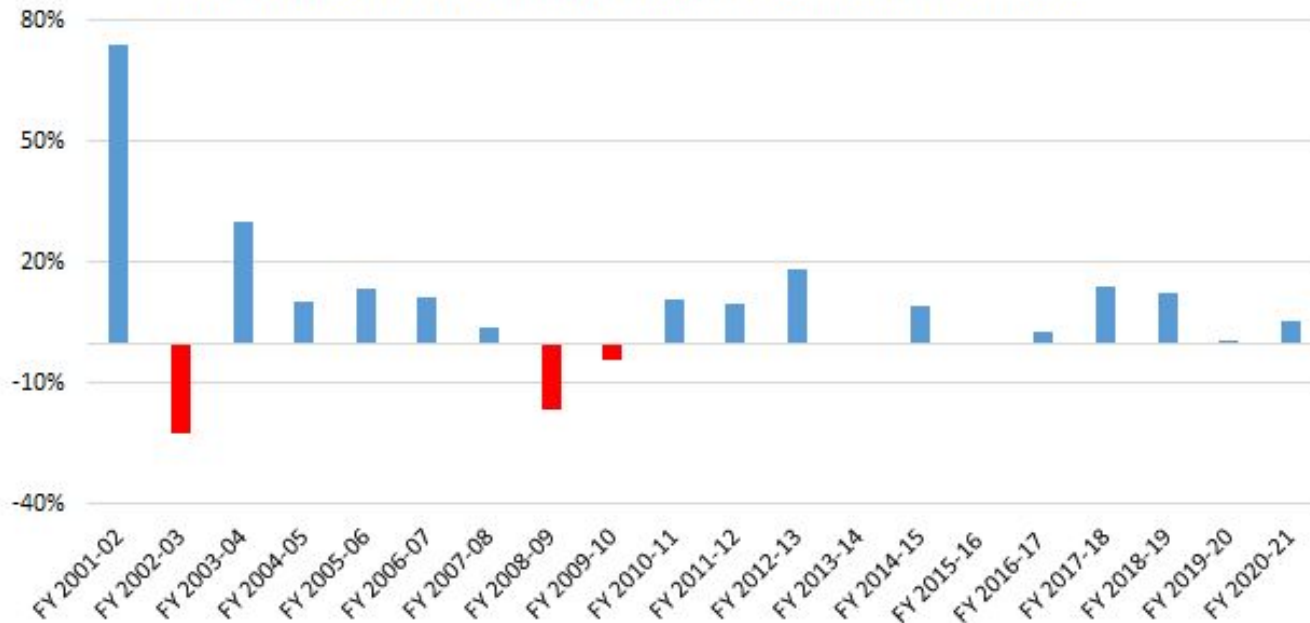
State Education Fund and School Finance



State Education Fund



Annual Percent (%) Change in State Education Fund Revenue
Revenue includes Amendment 23 Diversion & Interest (Excludes General Fund Transfers)



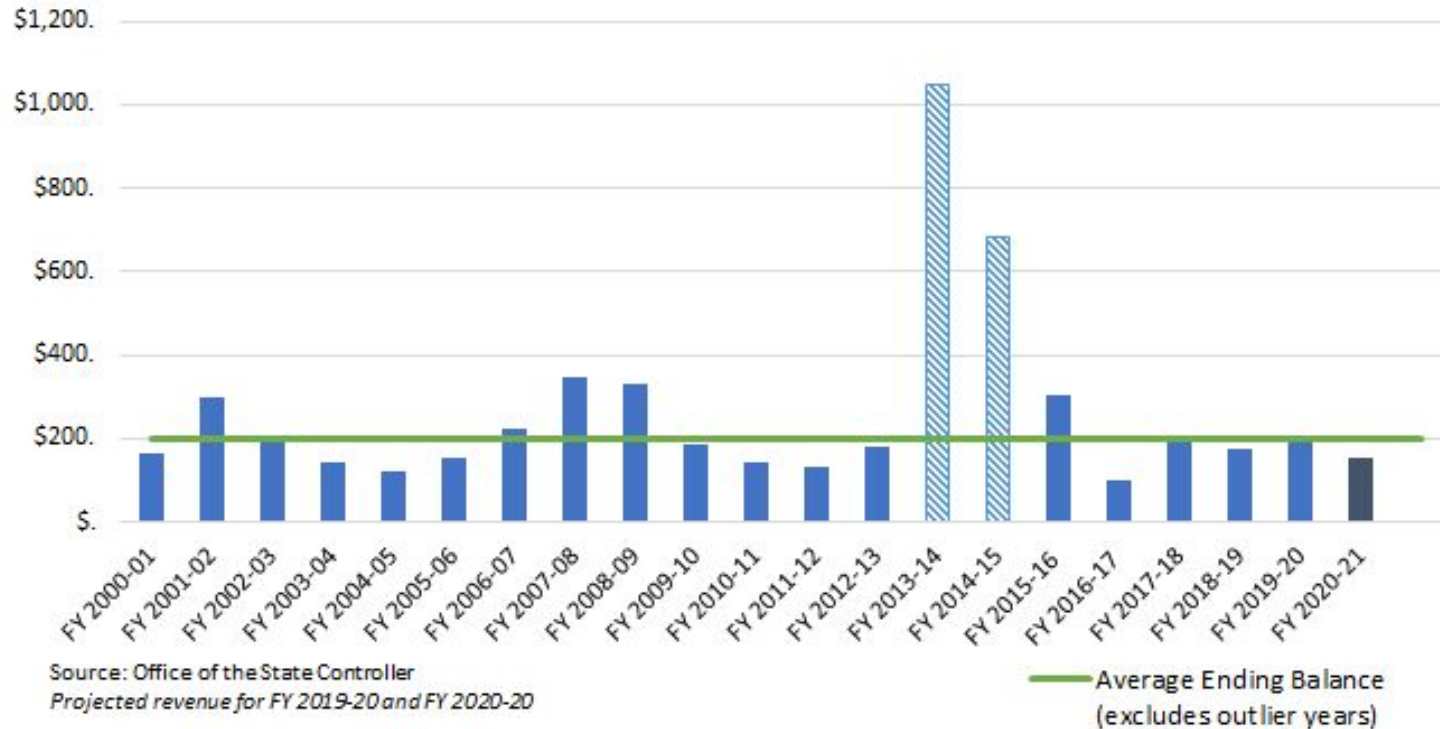
Source: Office of the State Controller

Projected revenue for FY 2019-20 and FY 2020-21

State Education Fund Buffer



State Education Fund Ending Balance Over Time





Questions?

FY 2020-21 Budget Reserves Package

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